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Feature Article - QUARTERLY REVIEW

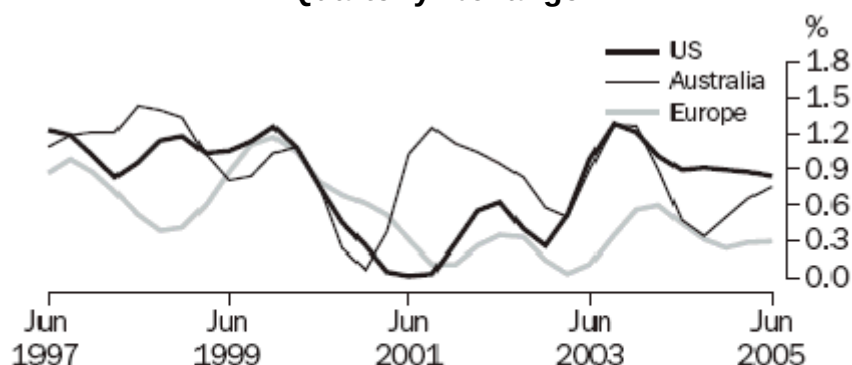
(This article was published in the October 2005 issue of **Australian Economic Indicators, Australia** (ABS Catalogue Number 1350.0))

The Quarterly Review refers to trend estimates unless otherwise specified.

OVERVIEW

Australia's June quarter GDP growth of 0.7% is comparable to other major economies but is still below the US growth of 0.8% (graph 1). During 2004 most developed countries were showing a slowdown in growth of GDP. Australian growth during the June quarter 2005 was mainly from the domestic sector, with gross national expenditure growing 1.2%. Exports were up 1.3% while imports increased 2.3% in trend chain volume terms.

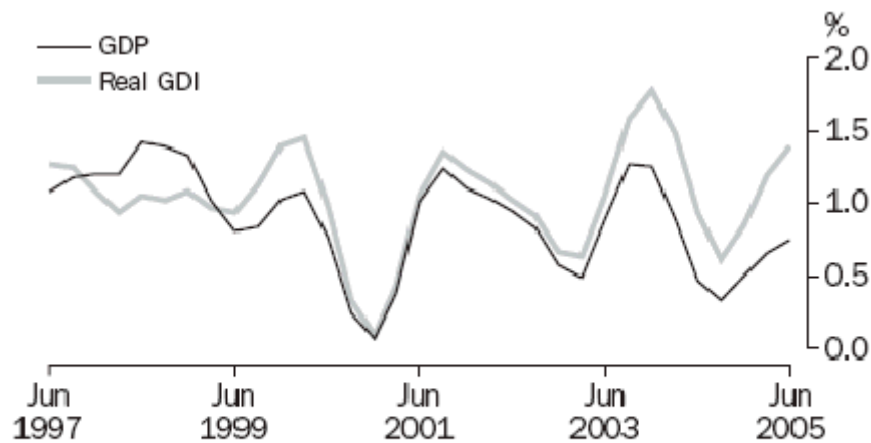
1 INTERNATIONAL ECONOMIC GROWTH, GDP VOLUME TREND, Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0 & Organisation for Economic Co-operation and Development.

Through the year to June quarter 2005, trend real gross domestic income (GDI) has increased by 4.1% compared with an increase of 2.3% in the trend chain GDP volume. Real GDI measures the purchasing power of the total incomes generated by domestic production, taking changes in the terms of trade into account. The chain volume measure of GDP is a measure of the volume of production within Australia. However, the total real income that Australians derive from this production also depends on the volume of imports able to be purchased from the proceeds of Australia's exports to the rest of the world. Over the past year, Australia's terms of trade have increased by 12.0%, so a given volume of exports will enable Australians to purchase a higher volume of imports than was the case in June quarter 2004. See also graph 21 below.

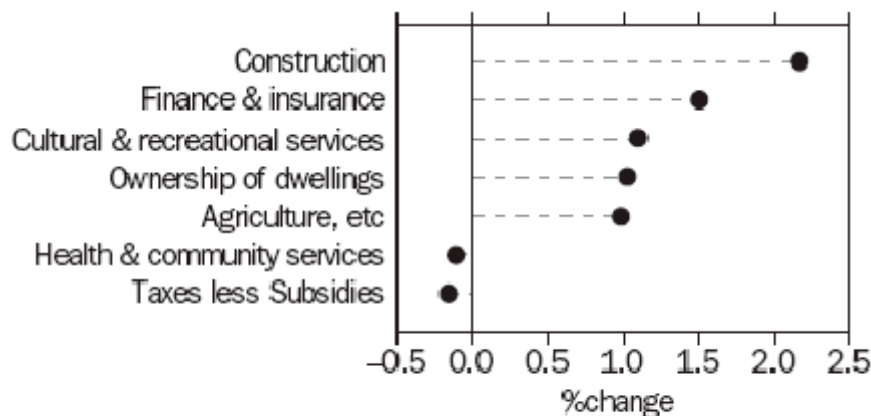
2 CHAIN VOLUME OF GDP AND REAL GDI, Trend— Quarterly % change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

Most industries made positive contributions to production chain volume measures in the June quarter 2005 (graph 3). The strongest quarterly increases were from construction (up 2.2%) and finance and insurance (up 1.5%). Other major contributors to growth in GDP were manufacturing (up 0.7%) and ownership of dwellings (up 1.0%).

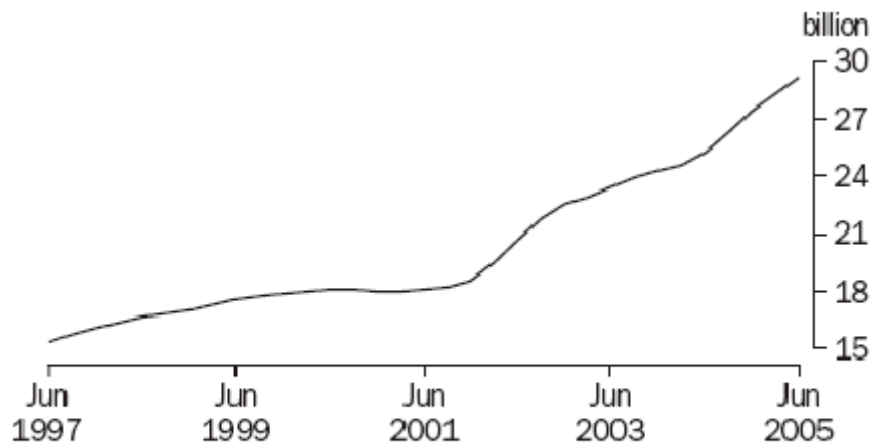
3 GROSS VALUE ADDED BY INDUSTRY, Trend— Quarterly %change—June Qtr 2005



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

Business investment contributed 0.4 percentage points of the 0.7% increase in GDP in the June quarter. Graph 4 shows the strong increase in business investment over the last few years. Investment in the resources sector has been high for several years, partly in response to the strength of China's demand for minerals and energy. New machinery and equipment purchases in the resources sector increased significantly during the quarter, as did spending on new road and rail projects, especially through public-private partnerships between state governments and the private sector. The investment boom should allow businesses to lift export capacity in future quarters.

4. TOTAL PRIVATE BUSINESS INVESTMENT, Chain volume measure, Trend

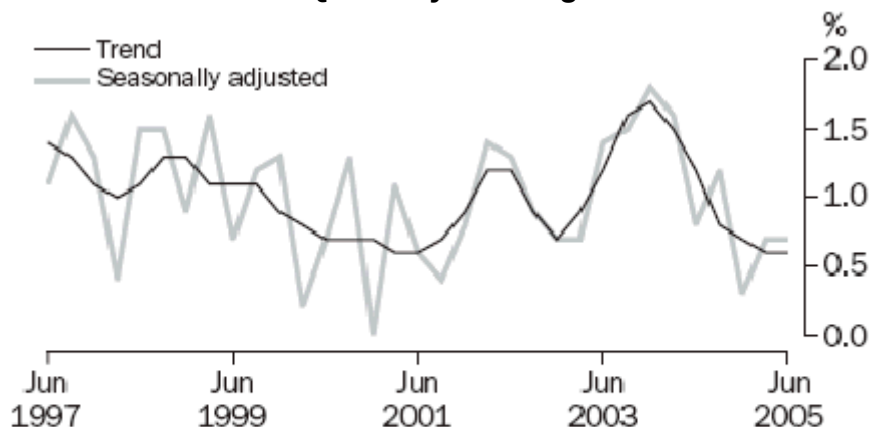


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

CONSUMPTION

In the June quarter 2005 the chain volume measure of household final consumption expenditure (HFCE) grew by 0.6% in trend terms and 0.7% in seasonally adjusted terms (graph 5). The strongest trend growth rates were recorded for communication (up 1.0%), recreation and culture (up 1.0%) and rent and other dwelling services (up 0.9%). There were only three components which fell; operation of vehicles (down 1.2%), purchase of vehicles (down 0.4%) and transport services (down 0.2%).

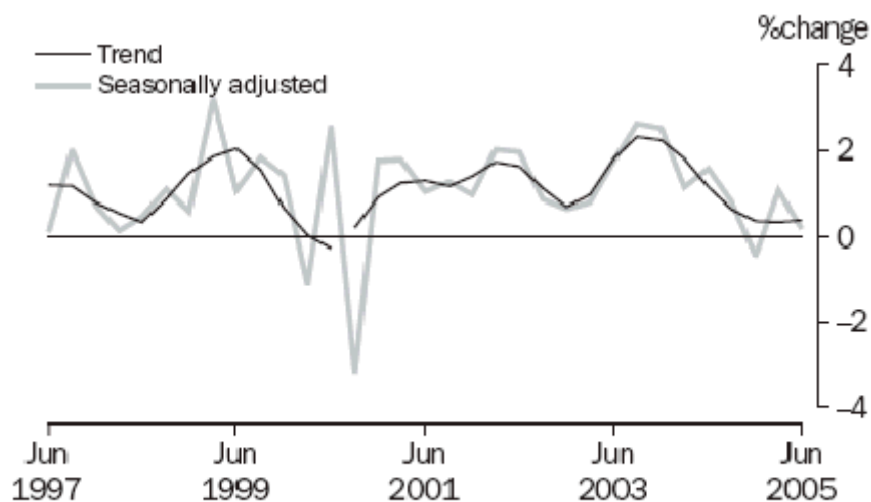
5 HOUSEHOLD FINAL CONSUMPTION EXPENDITURE, Chain volume measure— Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

In the June quarter 2005, retail turnover rose by 0.4% in trend chain volume terms, following an increase of 0.3% for the March quarter 2005. Five of the seven industries showed increases this quarter, with household good retailing up 2.2%, recreational good retailing up 1.5%, clothing and soft good retailing up 1.0%, hospitality and services up 0.5% and food retailing up 0.1%. Other retailing fell by 1.9% and department stores fell 0.3%.

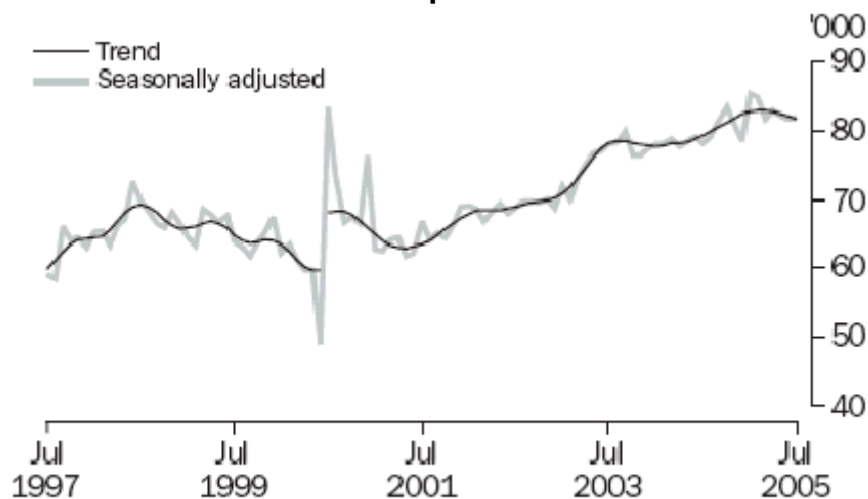
6 RETAIL TURNOVER, Chain volume measure, Trend— Quarterly %change



Source: Retail Trade, Australia, cat. no. 8501.0.

The trend estimate for sales of new motor vehicles (excluding motor cycles) fell by 0.6% from June 2005 to 81,678 in July 2005 (graph 7). It represents the fifth consecutive month of decline, however the trend estimate for July 2005 is 2.9% higher than the July 2004 estimate (79,356). In July 2005, decreases were recorded in the trend estimate for sales of new passenger vehicles (-0.5%) and sport utility vehicles (-1.9%) compared with June 2005, while sales of other vehicles remained stable. Most states and territories recorded decreases in the trend estimate for sales of new motor vehicles in July 2005 compared with June 2005. South Australia (-1.6%) and New South Wales (-1.4%) recorded the largest decreases, while the Northern Territory recorded the largest increase (0.8%) over the same period.

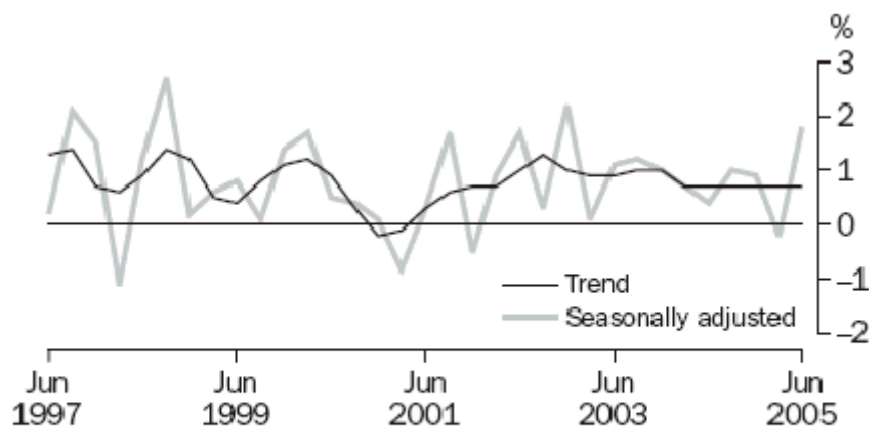
7 NEW MOTOR VEHICLE SALES, Number per month



Source: Sales of New Motor Vehicles, Australia, cat. no. 9314.0.

The trend chain volume measure of national general government final consumption expenditure (GFCE) excluding defence rose 1.0% in the June quarter 2005 (graph 8) and 2.4% between June 2004 and June 2005. The trend chain volume measure of defence final consumption expenditure fell by 0.5% in the June quarter, but rose 4.1% between June quarter 2004 and June quarter 2005.

8 GOVERNMENT FINAL CONSUMPTION EXPENDITURE, (Excluding defence) Chain volume measure— Quarterly %change

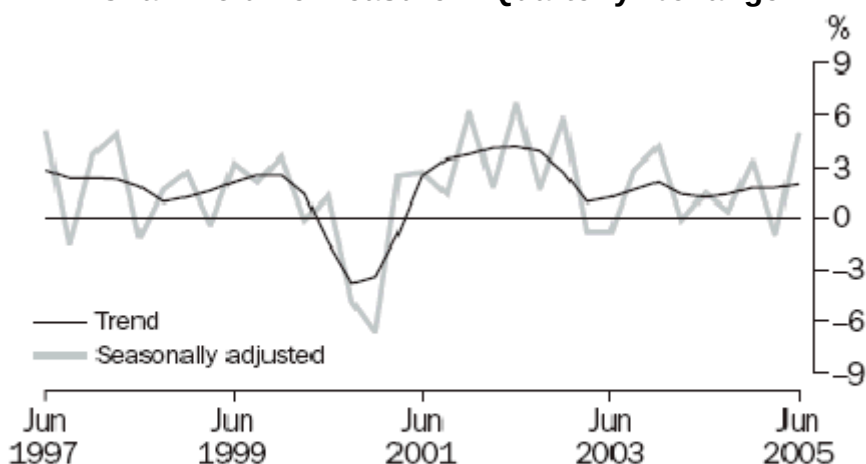


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

INVESTMENT

The trend chain volume measure of total gross fixed capital formation (GFCF) rose by 2.0% in the June quarter 2005, following rises in the previous sixteen quarters (graph 9). The trend is now 7.1% above that of the June quarter 2004.

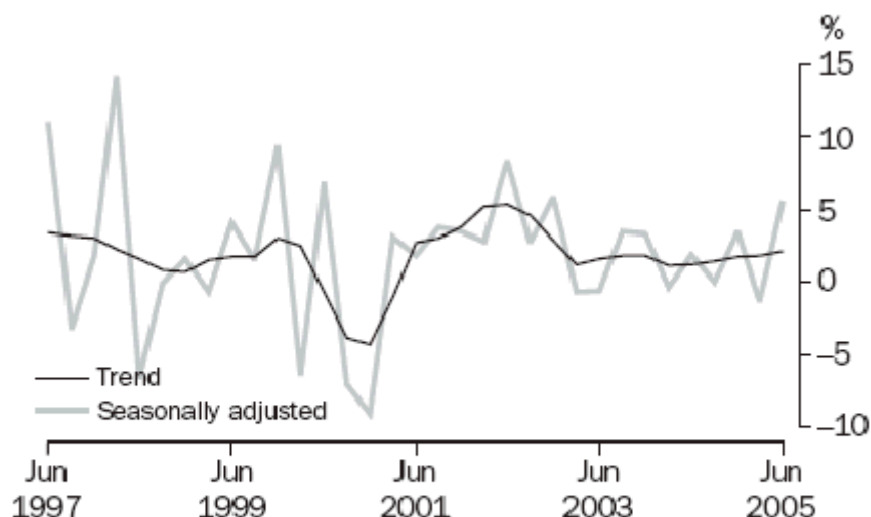
9 TOTAL GROSS FIXED CAPITAL FORMATION, Chain volume measure— Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The trend chain volume measure of total private gross fixed capital formation rose by 2.1% in the June quarter 2005 (graph 10), while public gross fixed capital formation rose by 0.8%. In the private sector, dwellings rose by 0.4%, non-dwelling construction rose by 5.3%, and machinery and equipment rose 1.4%. Livestock fell by 0.8%, intangible fixed assets rose by 1.9% and ownership transfer costs rose by 1.2%. For public GFCF, public corporations rose by 0.2%, national general government fell by 8.1%, and state and local general government rose by 4.4%.

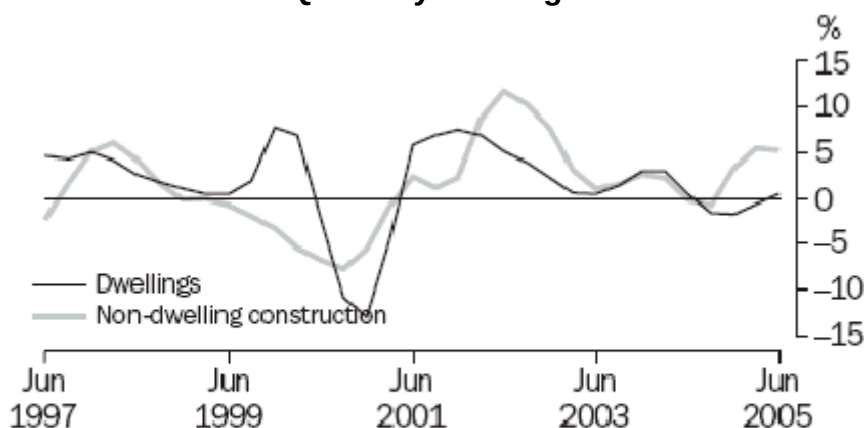
10 PRIVATE GROSS FIXED CAPITAL FORMATION (PGFCF), Chain volume measure— Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

Trend total GFCF for private dwellings rose by 0.4% in the June quarter 2004 (graph 11). New and used dwellings rose by 0.1% while alterations and additions rose by 0.8%. Expenditure on non-dwelling construction rose by 5.3%. There was a 5.5% increase in new engineering construction and a 4.9% rise in new building.

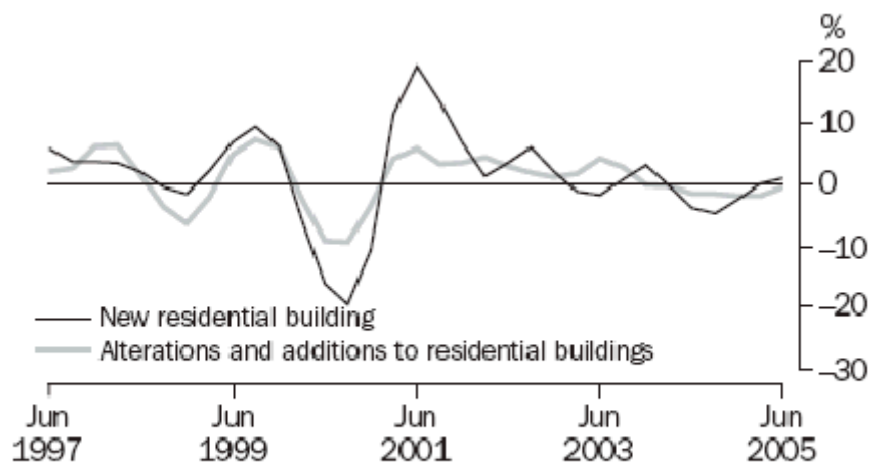
11 PRIVATE GFCF: SELECTED COMPONENTS, Chain volume measure, Trend— Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The trend chain volume measure of the value of building approvals rose by 0.7% in the June quarter 2005. There was a 0.8% rise in total residential building while non-residential building rose by 0.5%. New residential building rose 1.0% while alterations and additions to residential buildings fell 0.4% (graph 12). The rise in new residential building was due to a 2.3% rise in new houses and a fall of 1.8% in new other residential building. Some building approvals do not proceed, and there is a lag of a few months until work occurs for those that do. Also, interest rate changes influence approvals (see the feature article on the relationship between changes in interest rates and building approvals in the November 2001 issue of AEI).

12 VALUE OF RESIDENTIAL BUILDING APPROVALS, Chain volume measure, Trend— Quarterly %change



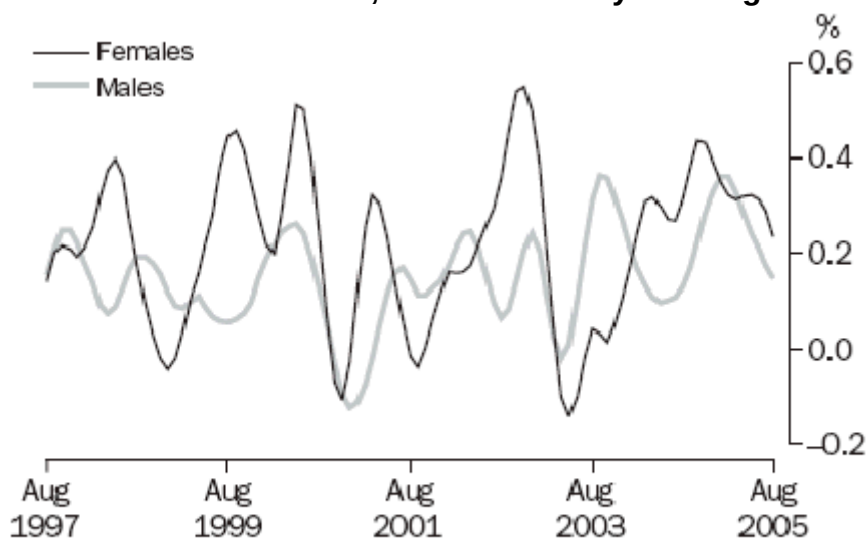
Source: Building Approvals, Australia, cat. no. 8731.0.

LABOUR MARKET

In August 2005 employment continued to grow, although the rate of growth is slowing, while unemployment is still very low.

In August 2005, the trend total number of employed persons increased 0.2% from the previous month to 10,056,400. Female employment rose 0.2% to 4,513,200 while male employment rose 0.1% to 5,543,200 (graph 13). Full-time employment rose 0.2% to 7,187,900 while part-time employment rose 0.3% to 2,868,600.

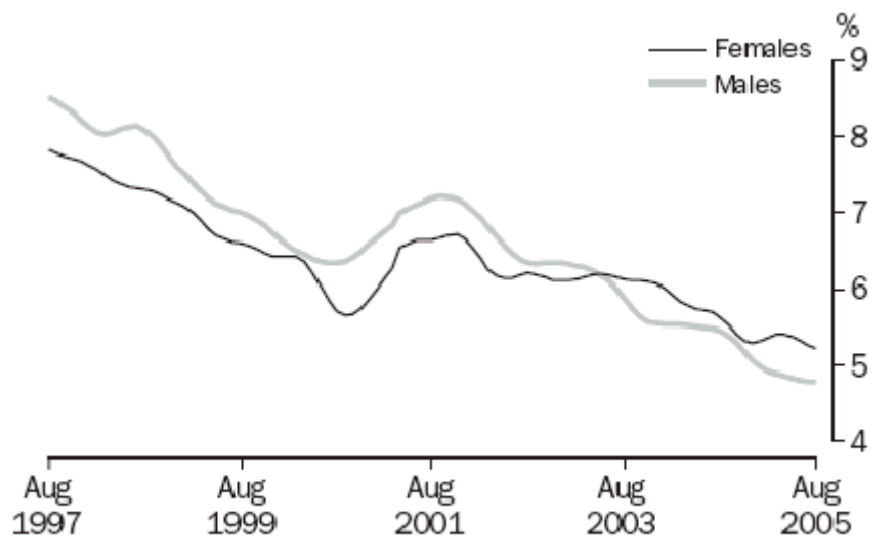
13 EMPLOYMENT, Trend—Monthly %change



Source: Labour Force, Australia, cat. no. 6202.0.

In August 2005, the trend unemployment rate remained steady at 5.0%. The male unemployment rate remained steady at 4.8% and the female unemployment rate fell 0.1 percentage point to 5.2% (graph 14). In August 2005 the number of persons looking for full-time work fell 0.5% to 369,400 and the number of persons looking for part-time work fell 0.1% to 158,100.

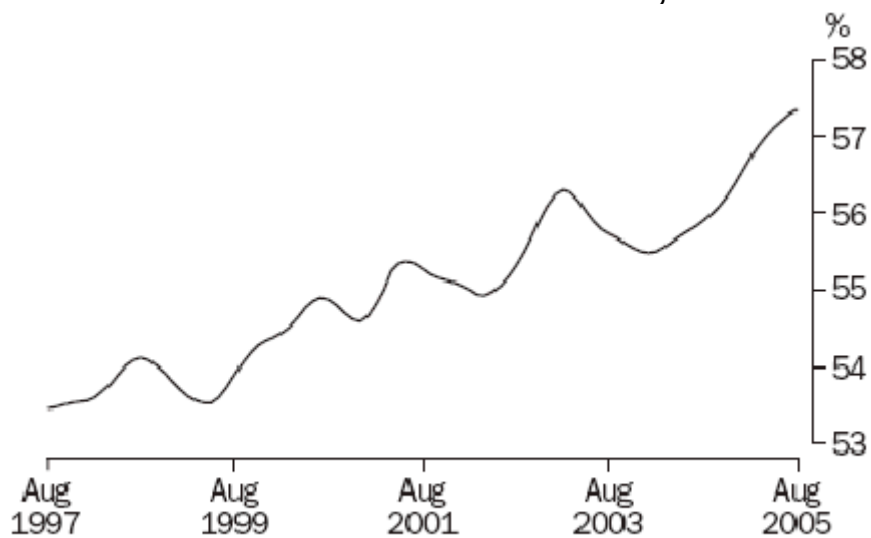
14 UNEMPLOYMENT RATE, Trend



Source: *Labour Force, Australia*, cat. no. 6202.0.

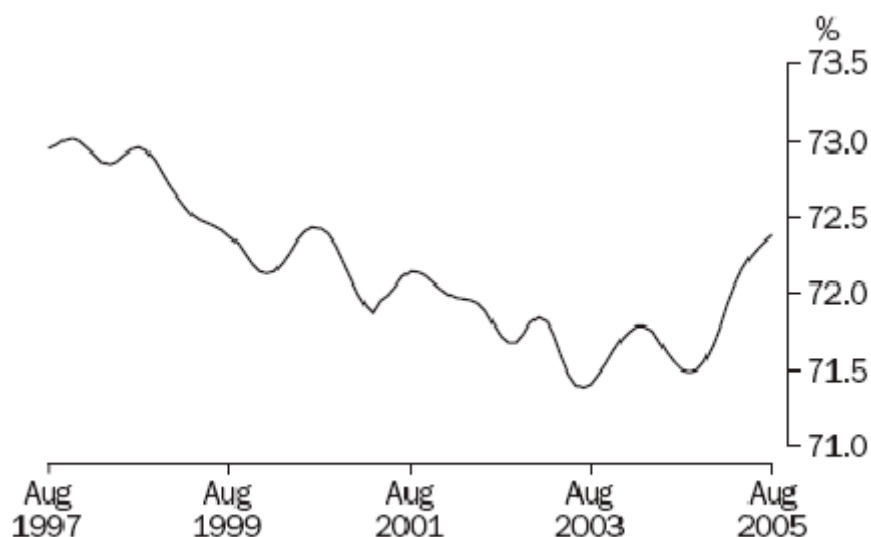
In August 2005, the overall participation rate remained steady at 64.7%. The female participation rate rose 0.1 percentage point to 57.4% (graph 15) while the male participation rate rose 0.1 percentage point to 72.4% (graph 16).

15 FEMALE PARTICIPATION RATE, Trend



Source: *Labour Force, Australia*, cat. no. 6202.0.

16 MALE PARTICIPATION RATE, Trend



Source: Labour Force, Australia, cat. no. 6202.0.

The trend chain volume measure of market sector GDP per hour worked rose by 0.1% in the June quarter 2005 (graph 17). Hours worked in the market sector rose by 0.7% and market sector GDP rose 0.8%. Market sector GDP per hour worked is a measure of labour productivity and in trend terms this is the first quarter to show a rise in a year. Note however that this measure is also affected by the contribution of capital and other factors to changes in production as well as changes in the overall quality of labour input.

17 LABOUR PRODUCTIVITY (PROXY) TREND, GDP Market sector, Chain volume measure— Quarterly %change

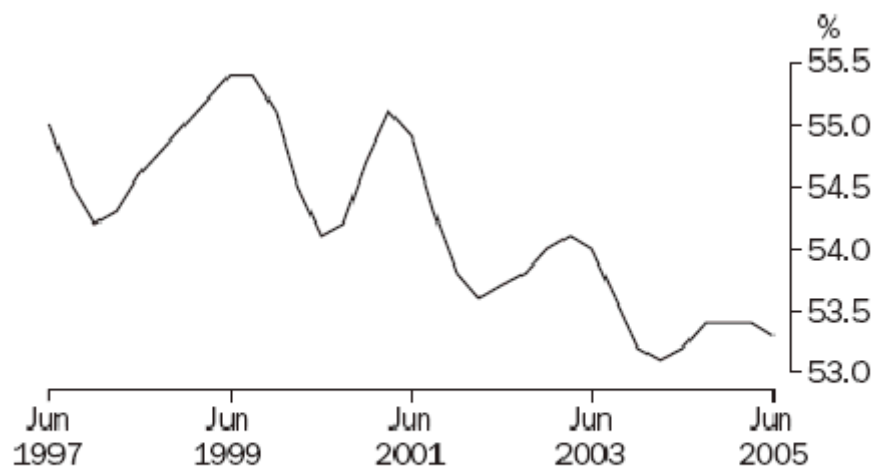


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

INCOME

In the June quarter 2005, the wages share of total factor income fell to 53.3% (graph 18). Compensation of employees rose by 1.9%, reflecting a rise of 0.9% in average earnings and a 1.0% rise in the number of wage and salary earners.

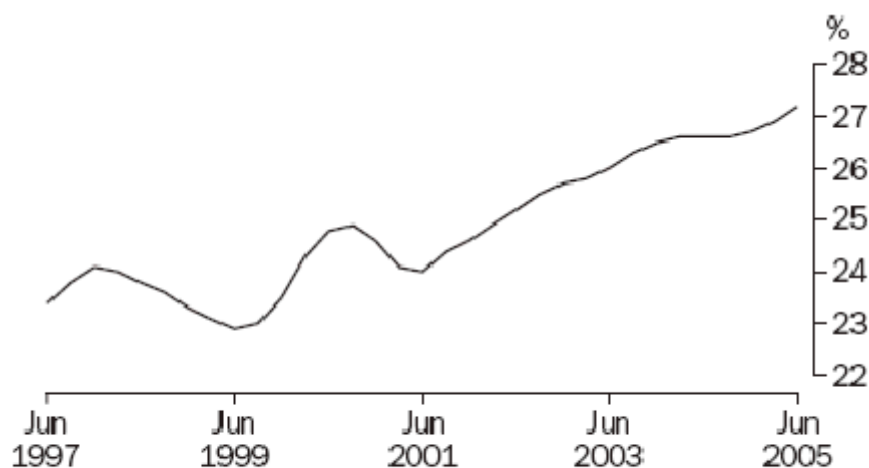
18 WAGES SHARE OF TOTAL FACTOR INCOME, Trend



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

In the June quarter 2005, the profits share of total factor income rose to 27.2% (graph 19). This profit measure comprises the gross operating surplus (GOS) of financial and non-financial corporations, which rose by 3.0% in the June quarter following a 2.7% rise in the March quarter 2005.

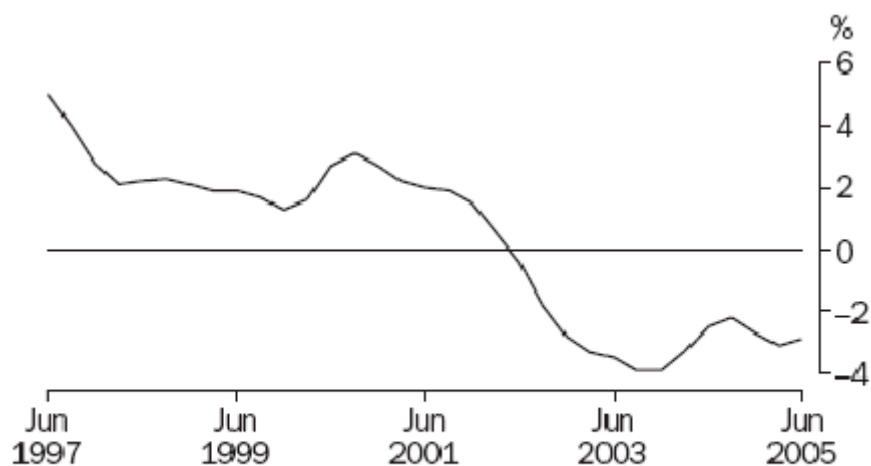
19 PROFITS SHARE OF TOTAL FACTOR INCOME, Trend



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The household saving ratio was negative in the June quarter 2005, implying that household consumption was greater than household disposable income. In trend terms the ratio was -2.9% (graph 20). This ratio is being driven by expenditure growing faster than disposable income. Caution should be exercised in interpreting the household saving ratio in recent years, because major components of household income and expenditure may still be subject to significant revisions. The impact of these revisions on the saving ratio can cause changes in the apparent direction of the trend.

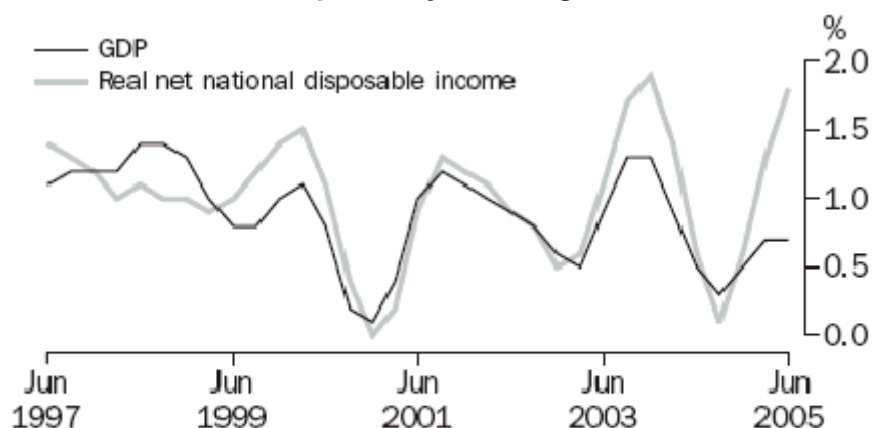
20 HOUSEHOLD SAVING RATIO, Trend



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

During the June quarter 2005 trend real net national disposable income rose by 1.8%, compared to the increase in the trend chain volume measure of GDP of 0.7% (graph 21). Real net national disposable income (RNNDI) is a broad measure of economic well-being. This measure adjusts the chain volume measure of GDP for the terms of trade effect, real net incomes from overseas and consumption of fixed capital.

21 GDP AND REAL NET NATIONAL DISPOSABLE INCOME, Chain volume measure, Trend— Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

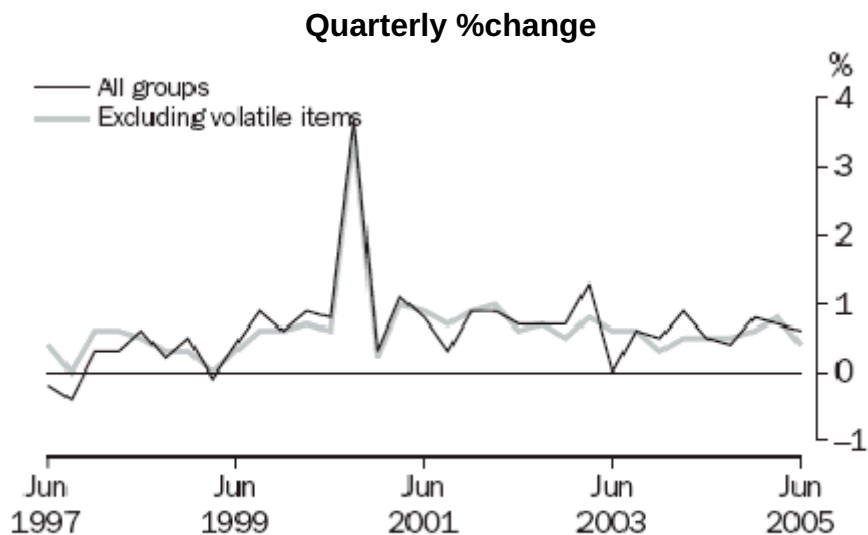
For further details about RNNDI see the feature article in the April 2002 issue of AEI.

CONSUMER PRICES

This commentary refers to original estimates unless otherwise specified.

In the June quarter 2005, the all groups consumer price index (CPI) rose by 0.6%, compared with a rise of 0.7% in the March quarter 2005 (graph 22). The major contributors at the group level were transportation (up 2.1%), health (up 2.4%), housing (up 0.6%) and household furnishings, supplies and services (up 1.3%). Recreation (down 1.3%) and communication (down 0.9%) provided offsetting price decreases.

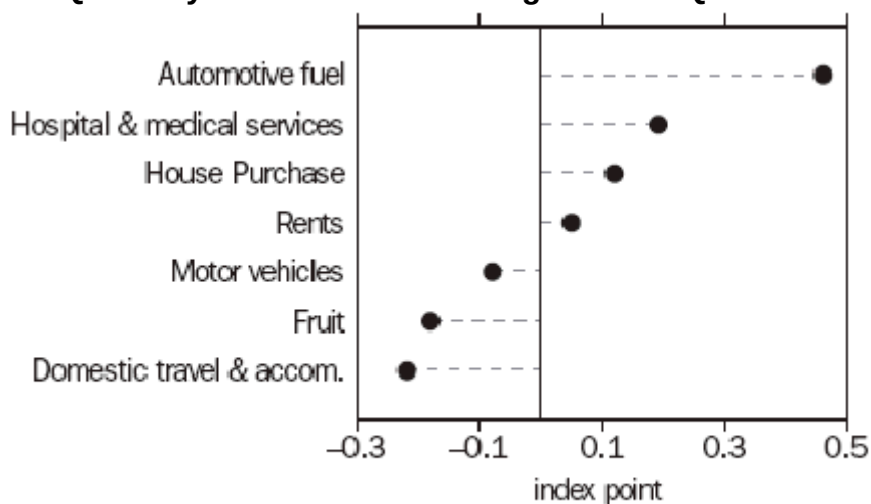
22 CONSUMER PRICE INDEX,



Source: Consumer Price Index, Australia, cat. no. 6401.0.

Graph 23 shows the major contributors to the change in the CPI for the June quarter. The 7.2% rise in automotive fuel contributed 0.46 index points to the rise in the CPI. The 4.2% increase in hospital and medical services contributed 0.19 index points to the rise in the CPI and rose mainly as a result of an average increase of around 7% in private health fund premiums from 1 April 2005. The 0.9% price rise in house purchase was reported by builders as mainly being due to increasing labour costs (including tradesmen) and material costs (in particular steel roofing, pre-mixed concrete and roof tiles), especially in Perth and Darwin. The 5.7% fall in domestic holiday travel and accommodation was due to drops in both accommodation tariffs and fares in the first half of the quarter, following the peak rates that applied in the March quarter. The June quarter fall in domestic holiday travel and accommodation was larger than usual due to Easter occurring in the March quarter this year.

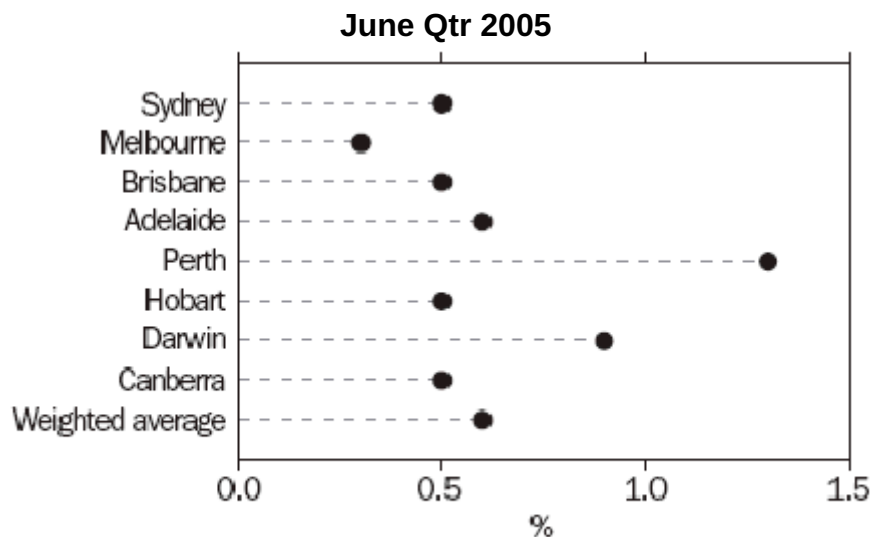
**23 MAJOR CONTRIBUTIONS TO CHANGE IN THE CPI,
Quarterly contribution to change— June Qtr 2005**



Source: Consumer Price Index, Australia, cat. no. 6401.0.

At the All groups level, the June quarter 2005 CPI rose in all capital cities (graph 24). The increases ranged from 0.3% in Melbourne to 1.3% in Perth. The higher result for Perth was mainly due to that city recording above average increases in food, housing, and household furnishings, supplies and services. The result for Melbourne was mainly due to that city being the only one to record a fall in house purchase prices.

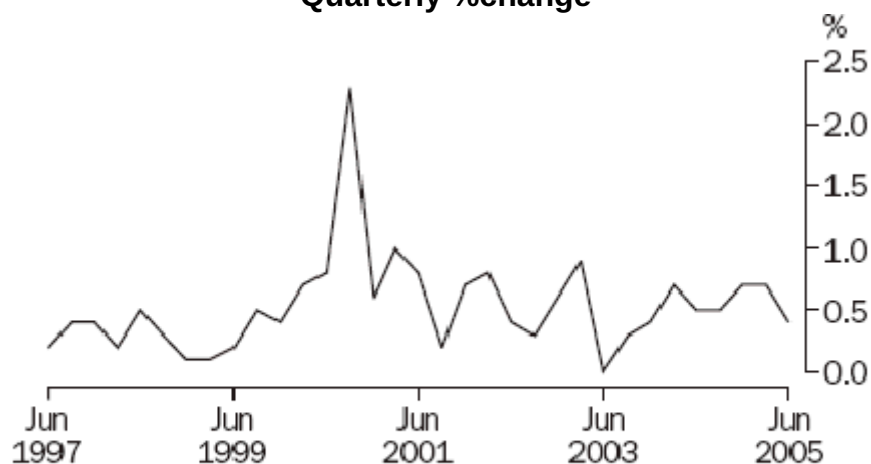
24 ALL GROUPS, Quarterly %change—



Source: Consumer Price Index, Australia, cat. no. 6401.0.

The national accounts domestic final demand chain price index rose 0.4% in the June quarter 2005, following a rise of 0.7% in the March quarter (graph 25). The domestic final demand chain price index is a broad based measure of price change and comprises final consumption and capital expenditure, for both private and public sectors. The chain price index for final consumption expenditure rose by 0.5% (by 0.3% for households and 1.5% for general government), while the chain price index for gross fixed capital formation rose by 0.1% (by 0.1% for private and by 0.5% for public).

25 DOMESTIC FINAL DEMAND CHAIN PRICE INDEX, Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

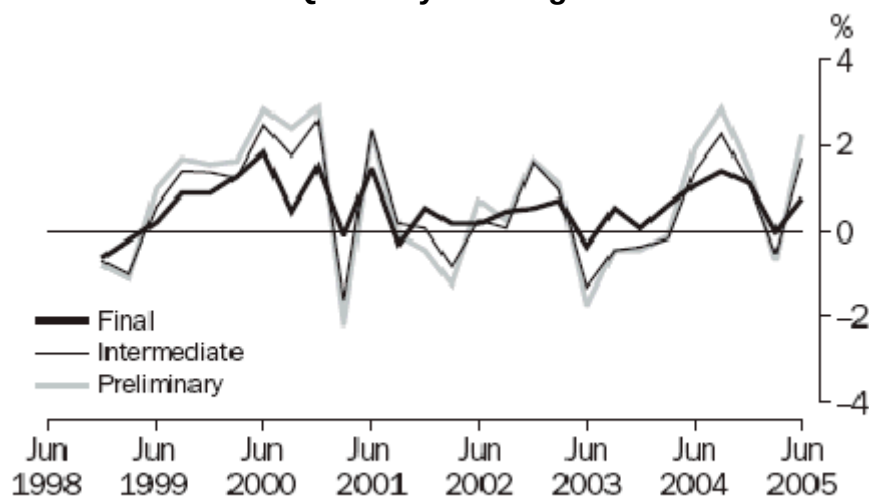
PRODUCER PRICES.

This commentary refers to original estimates unless otherwise specified.

The final (Stage 3) stage of production price index rose 0.8% in the June quarter 2005 (graph 26). For the final (Stage 3) index, there was a rise of 1.0% in domestic commodities mainly due to increases in building construction and petroleum refining, and a 0.1% fall in imported commodities due to price falls for capital goods. The intermediate (Stage 2) stage of production index rose by 1.7%, due to a rise of 1.4% in the domestic component and a 3.9% rise in the imports component. The preliminary (Stage 1) stage of production producer price index rose by

2.3%, due to a rise of 1.6% in the domestic component and a rise of 6.7% in the imports component.

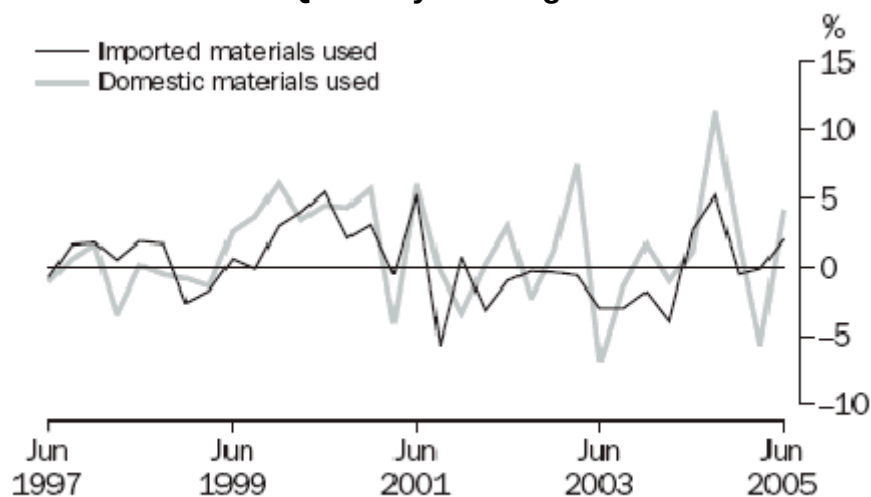
26 STAGE OF PRODUCTION INDEXES, Quarterly %change



Source: *Producer Price Indexes, Australia, cat. no. 6427.0.*

In the June quarter 2005, the price index of materials used in manufacturing industries rose by 3.1% (graph 27). There was a 4.2% rise in domestic materials and a 2.0% rise in imported materials. Increases in the price of crude oil (both domestic and imported), and whole milk products were the main contributors to the quarterly result. Price falls for cattle and calves, sheep and lambs and pigs provided some offsets to these increases.

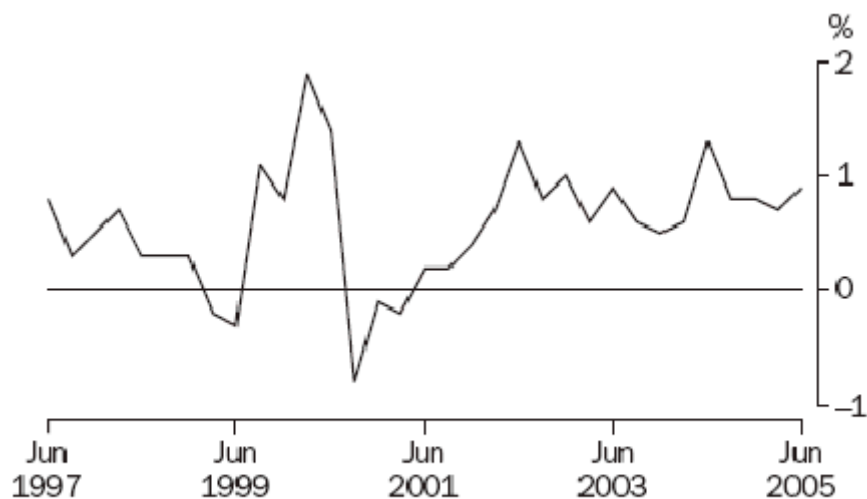
27 MANUFACTURING INDUSTRY PRICE INDEXES, Quarterly %change



Source: *Producer Price Indexes, Australia, cat. no. 6427.0.*

The price index for materials used in house building rose by 0.9% in the June quarter 2005 (graph 28), reflecting price increases for a range of materials. The most significant contributors to the increase were pre-mixed concrete, metal roofing and guttering and concrete tiles. The largest offsetting price fall was recorded for softwood. Increases were recorded in all state capitals, ranging from 0.3% in Melbourne to 1.7% in Perth. Through the year to June quarter 2005, the price index for materials used in house building rose 3.2%.

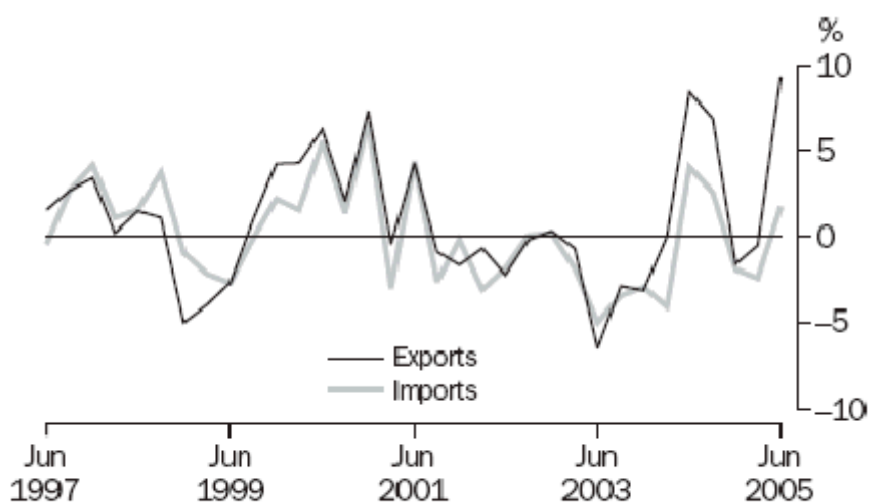
28 MATERIALS USED IN HOUSE BUILDING, Quarterly %change



Source: *Producer Price Indexes, Australia*, cat. no. 6427.0.

The export price index rose by 9.3% in the June quarter 2005 (graph 29), which is the largest increase since the current series began in September quarter 1974. The annual movement of 14.4% for the year ending June quarter 2005 was the largest annual movement since the year ending March quarter 2001. The June quarter 2005 increase was driven by price increases for materials primarily used in steel making (coking coal, and both iron and manganese ores) and materials used for power generation (thermal coal and crude petroleum oils). The most significant offsetting price decrease was observed for exports of fresh beef.

29 EXPORT AND IMPORT PRICE INDEXES, Quarterly %change



Source: *International Trade Price Indexes, Australia*, cat. no. 6457.0.

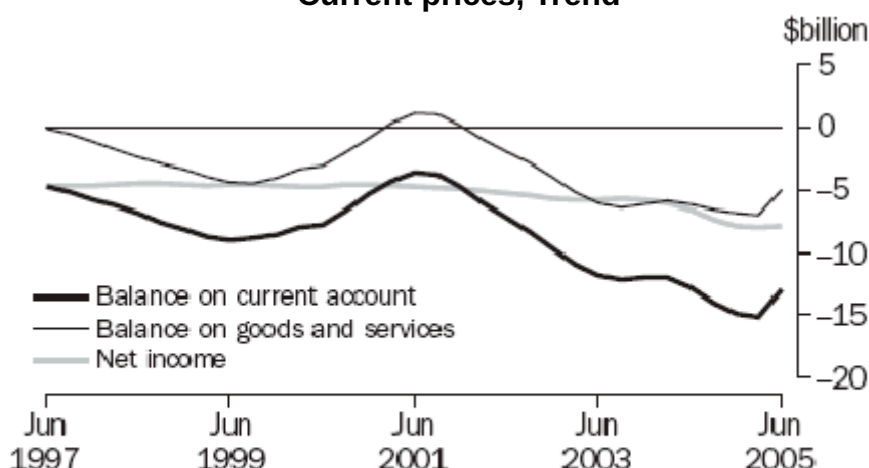
The import price index rose by 1.7% in the June quarter 2005 (graph 29). The most significant contributors to the decrease were crude and other petroleum oils. The most significant offsetting price decreases were observed for imports of motor vehicles.

INTERNATIONAL

In the June quarter 2005 the trend current account deficit was \$12.9b. This was a decrease of \$2.2b on the revised March quarter 2005 deficit (graph 30). The main contributor to the decrease in the deficit was goods credits, which rose \$2.8b (9%) partly offset by increases in goods debits of \$0.7b (2%). The prices of coal and iron ore export commodities significantly increased in June

quarter 2005 although the volumes of exports of these commodities remained relatively unchanged. These higher price levels were a major contributor to the increase in goods credits.

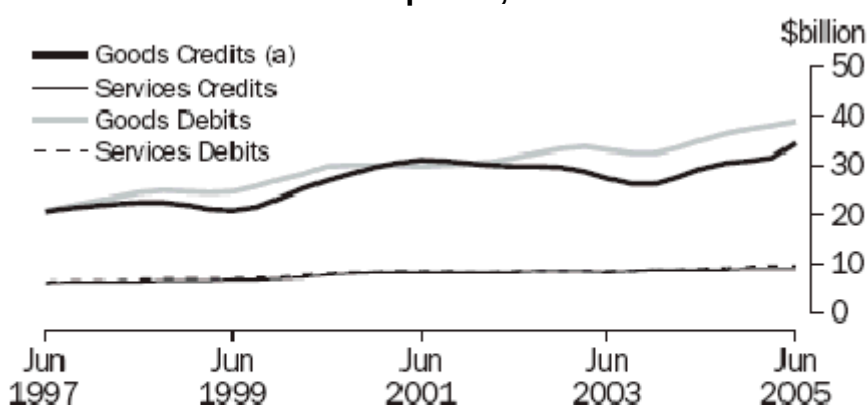
30 CURRENT ACCOUNT, MAIN AGGREGATES, Current prices, Trend



Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

The trend estimate of the balance on goods and services at current prices was a deficit of \$5.0b, a decrease of \$2.0b on the March quarter 2005 deficit after a trend break correction of \$1.8b (graph 30). The value of goods that Australia imports (debits) rose \$0.7B (2.0%) to \$38.8b in the June quarter 2005, while goods exported (credits) rose \$2.8b to \$34.5b after the trend break correction of \$1.8b (graph 31). The trend estimate of net services was a deficit of \$0.6b, a rise of \$0.1b on the March quarter 2005 deficit.

31 BALANCE OF PAYMENTS, GOODS AND SERVICES, Current prices, Trend

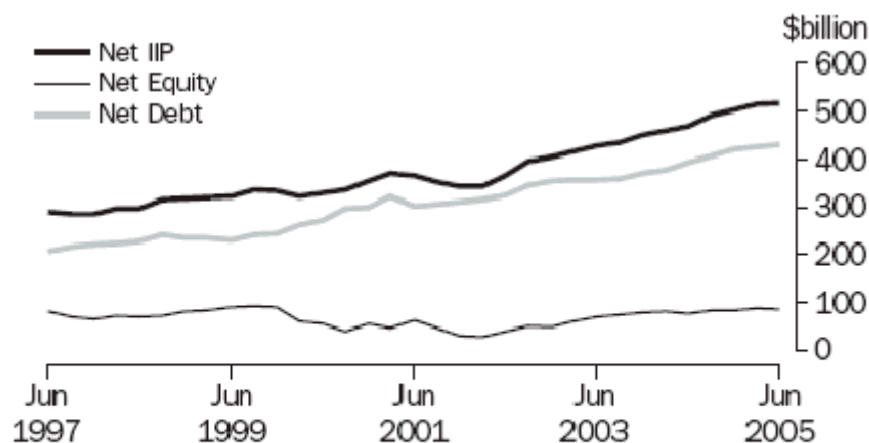


(a) A trend break of \$1.8b was applied to June Quarter 2005

Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

Australia's net international investment position rose \$2.0b to a net foreign liability of \$516.8b at 30 June 2005. Net debt liabilities were \$430.0b, an increase of \$3.2b (0.8%), as price changes of \$3.1b, net debt raisings of \$1.0b and other adjustments of \$1.0b were offset by exchange rate changes of -\$1.5b. Net equity liabilities fell by \$1.2b (1.4%), to \$86.9b (graph 32), reflecting price changes of -\$11.5b and other adjustments of -\$0.6b. Partially offsetting the decrease was transactions of \$10.6b.

32 INTERNATIONAL INVESTMENT POSITION, Levels at end of period



Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

Graph 33 shows the Trade Weighted Index (TWI) of the value of the \$A. In the June quarter 2005 the quarterly average TWI rose to 63.8 (from 63.7 in the previous quarter). The period average exchange rate for the Japanese yen rose to 82.64 per \$A (from 81.17 in the previous quarter), and the period average exchange rate for the United States dollar fell to 0.7684 per \$A (from 0.7771 the previous quarter).

33 TRADE WEIGHTED INDEX OF VALUE OF THE \$A, Quarterly Average, May 1970=100



Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

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